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RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 1879
RUEHAR/AMEMBASSY ACCRA 1822
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RUEHBY/AMEMBASSY CANBERRA 1223
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RUEHKM/AMEMBASSY KAMPALA 2002
RUEHNR/AMEMBASSY NAIROBI 4433
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UNCLAS SECTION 01 OF 02 HARARE 000215

SIPDIS

AF/S FOR S.HILL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
TREASURY FOR J.RALYEA AND T.RAND
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
COMMERCE FOR BECKY ERKUL

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: [PGOV](#) [ECON](#) [ASEC](#) [ZI](#)
SUBJECT: ZIM'S INDIGENIZATION BILL - A DAMAGING BUT MOST LIKELY
IDLE THREAT

REF: Harare 0598

SUMMARY

11. (SBU) The announcement that President Mugabe had signed the Indigenization and Economic Empowerment Act and its official publication on March 7 rocked the business community in Zimbabwe. Many businessmen had breathed a sigh of relief believing the Bill had been allowed to expire, unsigned, when parliament was dissolved in February; however, it now appears that Mugabe had signed the Bill before Parliament was dissolved and was holding back the announcement to use it as a vote getter during the elections. Some international companies have said privately that they will shut down their Zimbabwe operations rather than turn their brand over to foreign ownership, reducing already meagre foreign investment. Mugabe, however, will most likely allow the Bill to sit on the books unimplemented as a threat to business and potential carrot for ruling-party cronies. END SUMMARY.

Indigenization Bill Still Alive

12. (SBU) The announcement on March 7 that President Mugabe had signed the Indigenization and Economic Empowerment Act (the Indigenization Bill) (reftel) came as a surprise to many who thought it had died a procedural death when parliament was dissolved in February 2008. (NOTE: Parliament had passed the Bill on October 2, 12007. END NOTE.) At a business lunch hosted by the Ambassador on March 11, Callisto Jokonya, President of the Confederation of Zimbabwe Industries (CZI), said that according to his sources, Mugabe had signed the Bill in late 2007 and held back announcement until now.

13. (SBU) Indigenisation and Empowerment Minister Paul Mangwana gave details on the Bill at a press conference on March 11, explaining government will set a time frame for the sale of the 51 percent non-indigenous shareholding, and indigenous (defined as anyone who suffered racial discrimination before Zimbabwe's independence in 1980) investors will buy the shares after negotiations with the foreign-owned firms. The government would not be involved in determining who could buy shares or the price of the shares. Mangwana said "This is going to be a partnership...between the private company and potential investors. Companies will be given an opportunity to identify the indigenous investor to partner with in the business. Government will not dictate which companies should acquire the shares as this would be purely business transactions."

But Not Yet Walking

14. (SBU) Israel Chilimanzi, legislative program advisor at the Center for International Development, which is funded by State University of New York Zimbabwe (SUNY), also said that the Indigenization Bill might never take effect as it requires a statutory instrument from Minister Mangwana to be implemented. Chilimanzi cited an audit Bill that was drafted and signed in 1997 and also required a statutory instrument to implement it. The instrument was only passed ten years later. He suggested that Mugabe and Mangwana could sit on the Indigenization Bill indefinitely without enacting it.

15. (SBU) If the Indigenization Bill is enacted its implementation could bog down in negotiations over the share price. The companies

HARARE 00000215 002 OF 002

would first have to be valued before the price of 51 percent of the shares could be negotiated, which could delay any sale significantly, according to Phillip Chigumira, the CEO of the Cairns Holding Group. The composition of the 51 percent shareholding also would have to be negotiated, which could further delay any takeover.

Nonetheless, Investors Are NervoQ

16. (SBU) Subsidiaries of foreign-owned companies in Zimbabwe are clearly worried about the Bill, and many U.S. companies have contacted the Embassy with questions about its status and implications. At the Ambassador's March 11 lunch, Old Mutual Life Assurance Company Zimbabwe Ltd CEO Luke Ngwerume said that Old Mutual would close its Zimbabwe arm before it allowed someone else to control the company's operations and brand. The CEOs of Murray and Roberts, a South African construction company; Metallon Gold Zimbabwe, a black-South African owned mining company; and the Cairns Group agreed. Metallon CEO Collen Gura also noted his company only banks with the three foreign-owned banks in Zimbabwe: Standard Chartered, Stanbic and Barclays. If the foreign-owned banks closed their Zimbabwe operations rather than sell 51 percent of their shareholding, it would significantly weaken the banking sector and likely reduce liquidity in Zimbabwe's already strapped economy. John Laurie, a Director of Standard Chartered Bank, told us in addition that the Indigenization Bill could wipe out the remaining assets of white Zimbabweans because they held many of their private assets, including farms, as companies.

COMMENT

17. (SBU) The timing of the announcement that Mugabe had signed the Indigenization Bill certainly suggests it is being used as an election gimmick; however, it is unclear how effective it will be. Past experience with fast-track land reform has shown most Zimbabweans that these so-called redistribution measures have failed to enrich them. Thus, it seems likely that Mugabe is using the Bill to scare businesses into supporting him or risk being targeted for

indigenization, and probably also as a carrot to buy the loyalty of ruling party insiders who might be leaning toward supporting rival presidential candidate Simba Makoni. These insiders have already benefited from government patronage, so their experience tells them it works; they could see in the Indigenization Bill an opportunity to enrich themselves further. Given the limited success indigenous Zimbabweans will probably have in actually acquiring 51 percent of any foreign-owned company, however, we think the Bill is more of an idle threat and promise than reality. In the meantime, the uncertainty over its implementation will deter much needed corporate investment and tilt the scales toward more international companies exiting Zimbabwe. END COMMENT.

MCGEE